

The effect of the Patient Protection and Affordable Care Act on the health insurance industry

Major provisions of the act affecting the health insurance industry

- Health insurance companies forbidden to “cherry pick” who they want to insure
- Everyone is required to become insured somewhere
- Major medical policies would be more standardized
- Increased oversight and regulation of health insurance companies and their agents

What the future holds

- Health insurance companies will move from an “experience rating” model to a “community rating “ model
 - Experience rating – using the experience of a selected group of individuals in a risk pool. The overall experience of the group determines the cost of health insurance. The healthier the group or risk pool, the lower the cost of health insurance for that group. This method has been the most commonly used rating mechanism for health insurance.
 - Community rating – basing their rates and premiums on the overall cost of health care in a particular community or geographic area, usually a county, metropolitan area or a state. This was the rating mechanism used by the Blue Cross plans until the 1980s.
 - Under community rating the risk pool (group of individuals pooled together for sharing of the risk) is much larger since it takes in the entire community rather than a sub set of individuals.
 - With employer sponsored groups, the experience rating model will continue to be used since it uses the individuals that are part of the group (employees and their dependents). Usually the larger the group, the better the premiums will be and the more stable the premiums will be for members of the group.

What the future holds

- While major medical health insurance is greatly affected by the PPACA and policies are more standardized, “supplemental” health insurance policies and other forms of health insurance are left alone.
- “Supplemental” health insurance consists of these types of policies:
 - Hospital indemnity policies that promise to pay a specific amount if confined to a hospital
 - Dread disease policies like cancer and other specific disease plans
 - “Critical illness” policies that either pay a lump sum or monthly income if the insured suffers a heart attack, stroke, kidney failure or other critical illness
 - Accident policies that pay only in the event of an accident
- This is already a large market and under health care reform may get larger as more agents migrate to this market and more people use these policies to “fill in the gaps”.

What the future holds

- Health insurance companies will have to shift their focus.
 - Health insurance companies will still have to compete for business on cost as well as ability to handle claims promptly and efficiently.
 - Individuals and families will have a new found freedom to change their health insurance company if premiums get too high or the company does not pay claims to their satisfaction.
 - No longer will they be able to control costs by choosing who they want to insure
 - Instead they will focus on making sure that those they have insured are as healthy as possible.
 - This is already being done where “cherry picking” is not allowed; large employer groups and Medicare Advantage plans.

What the future holds

- How will these be accomplished?
 - More focus on “wellness” and a greater emphasis on preventative care. Insurance companies will become more pro-active in making sure the people they insure are getting regular check ups and screenings as well as taking their medications as prescribed. More patient follow up.
 - More management of chronic illnesses and disease management. This will place a greater emphasis on case managers who will help the patient better manage their illness. This would also involve coordination of care between primary care physicians, specialists and pharmacists so that the care the patient receives is effective and is working.
 - Better controls and auditing for fraud and abuse. Already many proposals are being tested to prevent abuse like “physician lock in” that prevents “doctor shopping” and abuse of prescription drugs. Monitoring physician drug prescribing to spot potential fraud and abuse.

What the future holds

- More consolidation of health insurance companies
 - This has already occurred as smaller health insurance companies have exited the major medical market.
 - The larger health insurance companies may have a greater share of the market
 - However there is still room for newer and smaller companies with innovative ideas and methods.
- More expansion of supplemental health insurance and other health insurance lines
 - Many agents have already moved into this line of business as major medical sales have become more difficult in recent years.
- Even with the exchanges, there will still be opportunities for agents in the health insurance business.

Other items of concern

- Interstate sales of health insurance.
 - Presently health insurance is regulated as all other lines of insurance by the individual states.
 - Many large health insurance companies sell in multiple states already, but policies will differ in each state.
 - Interstate sales of health insurance would require a federal regulatory agency since state regulation ends at the state border. Without any federal regulatory agency, health insurance policies sold across state lines would be virtually unregulated.
 - Companies that only sell within one state or part of a state would be unaffected since they would be regulated by the state in which they operate.
 - This could result in some savings and more standardization of policies, but could open the door to federal regulation of all lines of insurance.
 - Look to the securities market and the SEC as a model.

Conclusion

- There will still be a major role for health insurance agents under health care reform.
- Health insurance companies will still have to compete for business.
- Consumers will be able to change health insurance companies if premiums get too high or the company fails to pay claims to their satisfaction.
- Health insurance companies will still be able to design new plans, exit markets and change coverage.
- Look to Medicare Advantage plans as a model and how the future might look like under health care reform.
- Like any other major reform or change, those companies and agents that could adapt will prosper and thrive while those that cannot adapt to the “new reality” will wither and go out of business.